UNITED
NATIONS

DP

Governing Council
of the
United Nations
Development Programme

Distr.
GENERAL

DP/CP/LAO/5
13 February 1992

ORIGINAL: ENGLISH

Thirty-ninth session
4-29 May 1992, Geneva
Item 5 of the provisional agenda

PROGRAMME PLANNING: COUNTRY AND INTERCOUNTRY PROGRAMMES AND PROJECTS

FIFTH COUNTRY PROGRAMME FOR THE LAO PEOPLE'S DEMOCRATIC REPUBLIC

Programme period	Actual resources programmed	$
1992-1996	IPF for fifth cycle	42 156 000
	Carry-over from fourth cycle IPF	(5 695 000)
	Cost-sharing (programme and project)	4 858 000
	Total	41 319 000

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I. DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES

A. Current socio-economic situation

1. A relatively small country with a 4.2 million population, the Lao People's Democratic Republic has ambitious plans for economic and social development. The New Economic Mechanism, adopted in 1986 and gaining momentum since 1988, is aimed at disengaging the State from most production activities, and fostering the State's new role of providing an appropriate legal and regulatory framework and macroeconomic environment for private sector production, and improved physical and social infrastructure. These reforms have included removal of restrictions on private sector activity, removal of subsidies and price controls, adoption of a unified and market-related exchange rate, liberalization of domestic and external trade and foreign investment regulations, tax and financial sector reform, granting of autonomy in the management of State enterprise; and promulgation of laws governing property rights, contracts and banking. The reforms have received considerable support from the international financial institutions, through structural adjustment lending, inter alia. The country is also strengthening trade and cooperation with the bordering countries of Viet Nam, China, Myanmar, Thailand, and Cambodia.

2. Initial supply responses to the reforms were gradual because of the impact of the 1987-1988 drought on agricultural output and hydroelectric power generation. Return of normal weather has led to higher gross domestic production (GDP) growth rates, estimated at 8.9 per cent and 8.4 per cent for 1989 and 1990, respectively. The transition to the new economic orientation led to inflation of 68 per cent in 1989, but inflation fell to 20 per cent in 1990 and to 12 per cent per annum for the first nine months of 1991. The United States dollar exchange rate for the Lao currency has been relatively stable since the third quarter of 1989.

3. Despite its potential, the country faces obstacles to economic and social development. A lack of physical infrastructure such as roads, bridges, and telecommunications, and shortages of skills for economic development, including language skills, have constrained development in all economic and social sectors. Because of the low level of domestic savings, most development spending is financed through external cooperation, but effective utilization of such assistance is constrained by a limited absorptive capacity. Diversification of the Lao economy, including its exports, has progressed slowly. The majority of its widely scattered and ethnically varied population cultivate rain-fed rice at subsistence level. Per capita income in 1990 was about $180.

4. Approximately half of the country's active workers are women, who account for approximately 60 per cent of agricultural workers, but only for about 20 per cent of industrial workers. The ratio of girls to boys is estimated to be 40:60 in primary school, declining for higher levels of education.

5. The sustainable development and conservation of the country's agricultural, forestry, and hydroelectric power resources are central to its plans. The country's relatively large endowment of forest resources is subject to increasing pressure from timber export markets and from shifting cultivation practices that can lead to severe environmental degradation. The Government will pay particular attention to environmental issues in planning the future utilization of its forests, as well as of its vast potential for hydroelectric power.

B. National development objectives and strategies

6. The Political Report endorsed by the Fifth Party Congress held in March 1991 set the policy directives for its medium-term policy framework and the public investment programme for the 1991-1995 period. A major element of the plan is the continuation and consolidation of economic reforms.

7. The Government's medium-term development objectives are to:

(a) Consolidate the macroeconomic reforms to ensure a smooth transition to a market-oriented economy;

(b) Improve the efficiency and performance of the public sector;

(c) Accelerate socio-economic development and improve living standards by expanding economic, social and physical infrastructure and increasing the quality and availability of social services; and

(d) Halt the degradation of the natural resource base by developing and adopting sustainable resource and conservation management approaches.

8. Although the Government's public investment programme covers only capital projects, these projects, the overall plan and its sectoral strategies involve large requirements for technical cooperation. Funding and coordination of these technical cooperation components are crucial to the success of the plan. In infrastructure development, because of UNDP's experience in the country and its capacity-building emphasis, the Government wishes to concentrate UNDP resources on enhancing local capabilities to plan and manage sector programmes, rather than on supervising individual projects, as under the previous programme. In the social sector, particularly health and education, where substantial external assistance is programmed in relation to the absorptive capacity of the Government administration and budget, as well as in the area of conservation and environmental management, the Government proposes to draw on UNDP's aid coordination experience to improve the allocation of assistance in these sectors.

II. EXTERNAL COOPERATION

A. Role of external assistance

9. In 1990, total external assistance inflow was an estimated $155.7 million, compared to $540 million for real GDP (at 1989 prices) and $205 million for government expenditures. Of this amount, 35 per cent consisted of concessional lending, mainly structural adjustment credit from multilateral financial institutions supporting the economic reforms. The main bilateral donors in 1990 collectively disbursed $58 million. Total disbursements from the United Nations system were $18.1 million, of which $10.8 million came from the indicative planning figure (IPF).

10. Given the emphasis on fostering economic efficiency, assistance has increasingly been allocated to improving economic management. In 1990, the four sectors receiving the largest share of the external assistance were: agriculture (19.8 per cent); economic management (18.5 per cent); transport (18.1 per cent); and human resources development (13.4 per cent).

B. Aid coordination arrangements

11. The coordination of bilateral and United Nations cooperation is the responsibility of the Ministry of External Economic Relations, while assistance from the multilateral development banks is coordinated by the Ministry of Economy, Planning and Finance. Decree No. 69, issued in September 1991, specified that all aid flows are to be approved by the Government and recorded by the Ministry of Economy, Planning and Finance. The public investment programme involves major reforms in Government-led aid coordination, including centralization within this Ministry, standardized appraisal and approval procedures for projects and programmes, and standardized procedures for the monitoring of expenditures.

12. The Government appreciates UNDP cooperation in organizing the round-table meetings held in 1983, 1986, and 1989, as well as the meeting to be held in March 1992. The importance attached by the Government to the meetings is demonstrated by the recent establishment of an interministerial steering committee, to strengthen linkages between the meetings and the national planning process. Informal donor meetings in Vientiane, organized by the Government and UNDP to share information on assistance programmes in specific fields, further enhance coordination. The Government recognizes the usefulness of these meetings.

III. THE COUNTRY PROGRAMME

A. Assessment of fourth country programme

13. During the fourth country programme (1986-1991), sweeping changes were made in Government economic policies and development priorities. Because of the programme's flexible response to emerging needs and Government requests for new projects, the impact of UNDP cooperation differed from that originally anticipated. The emphasis shifted from institution-building to projects requiring more immediate investment support. A large part of the UNDP programme consisted of technical cooperation to complement large capital investment programmes funded by loans from the World Bank or the Asian Development Bank (AsDB) in the infrastructure sector. UNDP support in this area responded to the Government's need to use grant funds to finance feasibility studies and supervisory technical cooperation. In line with the Government's new policy for the sector, the emphasis of UNDP cooperation in agriculture shifted from supporting State-controlled food production to creating an enabling environment for market-oriented production, through strengthening of existing training centres and creating new institutions in support of human resource development.

14. UNDP cooperation during the fourth country programme improved Government capacity to (a) manage, supervise and implement investment programmes financed by multilateral loans; (b) implement appropriate human resource development programmes in response to the changing needs of a market-oriented economy; and (c) to improve and maintain transport and communication facilities. The programme also provided assistance to isolated areas through two large-scale integrated rural development projects.

15. The assessment of the fourth country programme identified several constraints to its implementation and to the Government's ability to capture the benefits of technical cooperation. The lack of a unified coordination mechanism for foreign assistance within the Government led to some duplication of efforts. The quality of UNDP project design sometimes suffered from project formulation missions that were too short to allow for adequate consultations with Lao officials or a realistic assessment of the local situation. The lack of counterpart capacity made it difficult for several UNDP projects to achieve the expected outputs within their original timespans, and was an obstacle to the sustainability of projects after external assistance ceased. The large number of projects funded by UNDP during this period, averaging 61 projects annually, reduced the focus and manageability of the programme.

B. Proposals for UNDP cooperation

1. Preparatory process

16. A large number of sectoral or investment planning missions took place during 1989-1991, mainly under the auspices of UNDP, AsDB and the World Bank. Most of these missions related to pending loan agreements or the preparation of sectoral master plans. They identified both investment and technical cooperation proposals. The Policy Framework Paper, approved by the International Monetary Fund (IMF) and the World Bank for their structural adjustment facilities, and the report prepared by the Government for the round-table meeting in March 1992, all summarized the priority investment and technical cooperation proposals for the 1991-1995 period.

17. In August 1991, the advisory note proposing priorities for the fifth country programme was received. The advisory note reflects the priorities proposed under the regional programme for the fifth cycle, thereby increasing the impact of the country programme by linking it closely to regional and subregional activities. The advisory note was discussed at a meeting with representatives from the technical ministries, UNDP, and the Lao Women's Union. The country programme was prepared after this meeting, in consultations established by the Government between UNDP staff and a working group consisting of the representatives of the Ministries of External Economic Relations, of Economy, Planning and Finance, and of Foreign Affairs.

2. Strategy for UNDP cooperation

18. The Government intends that the fifth country programme should primarily concentrate on improving the national capacities to plan, implement and manage economic reforms, to ensure maximum participation in the benefits of the reforms and to mitigate the effects on individuals and communities adversely affected during the transition period. The Government's public investment programme reflects the philosophy of the reforms, embodying the principle of investing in public, or quasi-public goods and services which would not, or could not, be provided by the private sector. Each sector is to strengthen and change its structure to facilitate private sector activity. The Government will establish and maintain policy and administrative structures necessary to promote private sector growth.

19. For advice and training in many aspects of the reforms, the Government seeks cooperation from UNDP because of its neutrality, access to know-how through the United Nations specialized agencies, and its mandate for national capacity-building. At present, UNDP is the only multilateral donor able to support the reforms with grant-funded technical cooperation on a large scale and over a sustained period. UNDP involvement in master plans for several key sectors has led the Government to view UNDP as a trusted partner for policy dialogue and action on various important issues. The Government therefore intends to concentrate UNDP cooperation on strengthening national capacities for overall management of sectoral and thematic programmes rather than on

technical cooperation for the implementation of these programmes. These considerations imply the need for a flexible approach to the provision of technical cooperation, which the Government considers UNDP best equipped to provide. Such an approach will enable the Government to continue to utilize UNDP's catalytic role of mobilizing complementary funding from other multilateral and bilateral donors.

20. The Government intends to use various funds administered by UNDP, apart from the IPF, to demonstrate methods of maximizing the access to benefits from economic reforms. The activities financed by the United Nations Capital Development Fund (UNCDF) will contribute to this objective by, for example, expanding small-scale irrigation, continuing provincial road construction, and emphasizing community participation in urban rehabilitation. UNDP is already drawing on the experience and expertise of non-governmental organizations (NGOs), through such programmes as the Partners in Development programme, in integrated rural development projects aimed at improving the living standards and market access of rural people.

21. UNDP's thematic objectives are fully reflected in the areas of concentration of this country programme. Much of the UNDP cooperation during the fourth country programme related, directly or indirectly, to environmental issues such as the integrated rural development projects, which aimed primarily at developing sustainable alternatives to shifting cultivation. These concerns will also be reflected in the fifth country programme, mainly in the promotion of changes from subsistence to commercial production in rural areas. However, the use of UNDP assistance under the IPF in areas directly relevant to the environment is intentionally limited, because of the significant assistance being provided by the development banks, the Global Environment Facility, Sweden, Australia, Finland and Germany. Nevertheless, the Government will consider possibilities for the use of UNDP cooperation in coordinating these donor inputs.

22. IPF and project cost-sharing inputs account for 88 per cent and 12 per cent, respectively, of the total fifth country programme funding from UNDP-administered sources, totalling $41.32 million. Funding for the three main areas of concentration of the programme is relatively balanced: $9.72 million (24 per cent) for human resource development; $11 million (27 per cent) for support to economic reform; and $16.52 million (40 per cent) for infrastructure development. The remaining 9 per cent of IPF and cost-sharing funding is allocated to programme support (4 per cent) and the unprogrammed reserve (5 per cent). The Government will provide 71 per cent of total cost-sharing.

3. Proposed UNDP cooperation in selected areas of concentration

Area I. Support to the New Economic Mechanism

23. The breadth and speed of the economic reforms has led to stresses in economic management, and to some social and economic adjustment costs. There were increases in the external and fiscal deficits and inflation, an initial slowdown in the pace of economic growth, and a reduction in output and employment of State enterprises. Because of its narrow production and export base, the country remained largely dependent on external assistance for investment. The declining performance of State enterprises, a major source of domestic revenue in the past, further constrained the generation of domestic savings. Instruments for public management of the economy during its rapid transition have yet to be fully developed. Most of the assistance so far in this area has come from Australia, France, Japan, Sweden, the multilateral banks and UNDP. The need for thorough familiarity with the ongoing reforms, neutral advice on the more sensitive issues of the reform process, a continuous balancing of growth, efficiency and equity criteria, and sustained and grant-funded technical cooperation in this area through the plan period, explain why the Government requests UNDP to mobilize the technical cooperation required for the implementation of the activities mentioned under this area of concentration.

24. The policy reforms to be pursued by the Government during 1991-1993 will put emphasis on enterprise reform, with continuing financial support from the International Monetary Fund (IMF) and the World Bank. The Government's privatization programme and public-sector resource management will be strengthened to achieve a more efficient deployment of financial and human resources.

25. Performance indicators for the support of the reforms include (a) continuation of economic adjustment, stabilization and growth; (b) growth of commercial agricultural outputs and diversified exports; (c) improved tax effort and collection and growth of public and private saving; (d) furtherance of government-led investment planning and aid coordination; (e) privatization of a significant number of State enterprises at reasonable market values; (f) growth of private, foreign, and joint-venture businesses buttressed by refinements in the legal system; (g) growth of agricultural extension and community development and involvement of women in agriculture and small industry; and (h) availability of socio-economic data on a broadened and timely basis.

26. Resource mobilization and public investment programming. In view of its importance for resource mobilization, UNDP support to fiscal and customs reforms will be continued. In addition, assistance is proposed to build up the capacity of the Ministry of Economy, Planning and Finance for investment programming and monitoring, budget classification and expenditure procedures, and recording of aid flows to maximize the mobilization and efficient use of external resources. The State Statistical Centre is being assisted in

conducting a national household consumption survey and a preliminary manpower and labour market survey. The operational efficiency of the State enterprises remaining in the public sector is being improved by manager training in accounting, management, and marketing. The thematic focus addressed by assistance in each of these areas is management development.

27. Enhancement of private-sector development. The Government intends to consolidate and intensify UNDP cooperation in privatization and foreign investment promotion. The Foreign Investment Management Committee needs to be strengthened, the barriers to foreign investment reviewed and action taken to alleviate them, and a unit established to actively promote new investment. Consultancy services will be required for the secretariat of the Committee to assist in evaluating foreign investment proposals and negotiating contracts with foreign investors. Amendments to the foreign investment law will need to be promulgated to simplify it and harmonize it with other new legislation. Continued technical cooperation will be required for the privatization programme with an emphasis on training. Cooperation is also required to implement the wide range of business laws that have been prepared to guarantee the security of business operations, ensure fair competition between private and public firms, and foster compliance with commercial agreements. These activities will also correspond to UNDP's global theme of management development.

28. The Government's main objective for the manufacturing sector is to establish a new policy framework and ensure that the institutional reforms are widely understood. In the medium term, it is likely that only small- and medium-scale enterprises will be established. These enterprises will be an important source of employment for urban youth and workers leaving the public sector because of retrenchment. UNDP cooperation will be used by the Government to identify existing and potential small-scale entrepreneurs and the nature of assistance required to stimulate and harness their commercial skills, provide training in business, accounting and management techniques, identify market opportunities, and meet credit needs. The need for an industrial extension service for small- and medium-scale manufacturers will be explored with other donors. A village level agro-processing project is proposed for household processing activities, aimed mainly at integrating women into the development process.

29. Promotion of market production in rural areas. A major challenge facing the Government is demonstration of the advantages of a market economy to over 50 per cent of the total population living in small isolated communities and engaged in subsistence farming. The benefits of cultivating agricultural commodities other than rice and building marketing links for their output need to be demonstrated to these farmers. Their participation in commercial production will generate needs for the timely supply of inputs and rural credit. Demonstration of the benefits of irrigated crop production and community management of water resources requires development of relevant agricultural extension and education services. UNDP cooperation will be required to help introduce changes in farming communities by supporting projects in fisheries extension, rural credit, and small-scale irrigation.

The integration of women into these projects is important, given their prominent role in agriculture. These projects can benefit from involvement of the United Nations Volunteers (UNV) programme and NGOs.

30. The Government will seek UNDP cooperation in agricultural extension, research and training to demonstrate the benefits of changing from subsistence farming to monetized production. UNDP cooperation is expected to help realize this potential by demonstrating the benefits of better water management in small irrigation schemes, the link between extension and research, and the most effective way of undertaking extension. Since the activities under this programme theme are intended to bring the benefits of economic reform to disadvantaged communities, they will directly address UNDP's global poverty alleviation theme. They also offer scope for increasing women's participation in development, and technical cooperation between developing countries.

Area II. Development of physical infrastructure

31. The Fifth Party Congress identified transport and communications as prerequisites to economic and social development. The land-locked, mountainous, and sparsely populated nature of the country makes the development of this sector costly in terms of construction and maintenance. Inadequate domestic and international communications impose severe constraints on the integration of domestic markets and the development of international trade. The Government's strategy in the energy sector is to develop energy sources such as hydroelectric power to replace imported petroleum and the use of wood for fuel and to meet the growing local and export demand for electricity. The development of the infrastructure will be crucial in achieving the market integration required for the smooth and efficient functioning of an open economy relying on private-sector initiatives. The integration of the country through a national transport and communications infrastructure will also increase the scope for fuller participation in the potential benefits of the reform programmes by gradually making the social infrastructure more accessible to a wider part of the country's population.

32. During the fourth country programme, UNDP helped to prepare sector and master plans, including investment-related technical cooperation needs to complement capital assistance provided by other donors. In addition, UNDP assisted in coordinating and mobilizing the multi-donor funding of some of these investments. Continued support will be required to implement the sector plans and to coordinate external assistance to major projects. This support is expected to focus on improving domestic capacities to plan, manage and supervise transport and communications programmes and thus will directly address the UNDP global theme of management development. While the development of the physical infrastructure received increasing support from most donors, this assistance was mainly of a capital nature. In view of the challenges ahead in this area, the Government believes that an intensive effort will be required to strengthen the national institutions in charge of the infrastructure sectors. The Government therefore recommends that UNDP, with its focus on capacity-building and its accumulated experience in this area, mobilize the cooperation required for the implementation of the programmes mentioned under this theme.

33. Performance in this area will be evaluated through expansion of transport and communication facilities, and proven results of mineral exploration and hydro-power development. The capacity-building results of the fifth country programme will be revealed by the demonstrated ability of the Government to plan and implement such expansions and to provide the trained manpower and recurrent funding for further expansion and maintenance.

34. Telecommunication and civil aviation master plans. Following the preparation of a master plan during an earlier phase of its assistance, UNDP is providing technical cooperation for the second telecommunications project jointly funded by Japan and the World Bank. Apart from support for project supervision, the assistance focuses on several aspects of institution-building, including the establishment of a management accounting and financial management system. Similarly, the civil aviation master plan prepared with UNDP cooperation is under consideration by the Government. If the necessary capital assistance can be mobilized for its implementation, UNDP technical cooperation will be required for institution-building, training, sector planning and management.

35. Mineral and hydro-power development. The existence of substantial untapped hydroelectric power resources and the rising demand for electricity in Thailand indicate the potential for further growth in hydroelectricity exports, a major source of foreign exchange earnings. The expansion of power generation and domestic transmission facilities will provide opportunities for expanding private-sector activity by increasing food production through the use of more irrigation pumps, encouraging the establishment and geographical dispersion of agro-based and other industries and investment in mineral processing. A number of issues need resolution, including the establishment of domestic and export pricing policies for electricity and an evaluation of the availability of financing for and environmental and social impact of large hydroelectric power projects. The Government therefore requests UNDP technical cooperation to strengthen capacities for the hydroelectric sector and project planning, design and implementation.

36. The country is believed to have a considerable mineral potential. Most of the relevant data have not been collated, and little exploration has been conducted to establish the feasibility of mining operations. Further UNDP assistance is required to strengthen the legal and regulatory framework for the sector and to upgrade the Government's institutional and technical capabilities. The latter relate specifically to project planning, exploration and mineral analysis, development of management skills, contract negotiation and monitoring, and the preparation of legislation for the mining sector.

37. Road and river transport development. The development of the transport system is a critical area for direct Government intervention in support of private sector activity, and also has an important regional dimension. The Government's priorities in the medium term are the completion of the national road network, including road links with China and Viet Nam and bridge links with Thailand, extension of the provincial road network, the negotiation of improved transit rights through neighbouring countries, and improved river

port and airport facilities. In line with the technical cooperation needs identified in the national transport study, financed by UNDP, its assistance is required to establish a road and bridge maintenance unit, help the Government establish financing and cost-recovery schemes for road maintenance, strengthen the rural road construction programme, and enhance the Ministry's planning and monitoring capabilities. By targeting improved access to isolated communities, such cooperation addresses the UNDP theme of poverty eradication.

Area III. Human resource development

38. Government policy assigns high priority to human resource development. It requires that education and training be oriented towards meeting the needs of all sectors of the economy, improving its quality and coverage, and reducing regional disparities. The current restructuring in the economy will shift the requirements of the labour market from agriculture to meeting the need for higher administrative and technical skills in industry and services. Health services lag behind many developing countries, requiring support of health management capability and health manpower to expand coverage of basic health care services. Another aspect of the reform process which needs careful monitoring is its social impact on vulnerable groups. A safety net could be provided to help to minimize the adverse impact of the reform process on those seriously affected.

39. Direct indicators of human resource development include: (a) higher rates of literacy and school enrolment at all levels, with reductions in regional and gender disparities; (b) increased life expectancy, reduced infant and maternal mortality, and lowered contraction rates for preventable diseases; (c) improvement and expansion of education and health facilities nationwide; and (d) advancement of skill levels and efficiency of the streamlined civil service. Evaluation of the contribution of the fifth country programme will centre on the proven ability of the Government to direct and sustain improvements in the social sector through its own planning, investment, management, and training capacities.

40. Public-sector human resource development. The growth of a market-oriented economy has created stresses in public administration, because civil service structures and procedures are often not well adapted to these changes even though some training programmes have been conducted with the assistance of donors. The Government has already reduced its staff by 19 per cent, and a further 25 per cent reduction by mid-1992 is proposed on the basis of a study of the present structure and the design of a new administrative structure, statutory rules, and terms and conditions of employment. These tasks are to be implemented by a new Civil Service department. The Government wishes UNDP to assist in planning and implementing the reform process and in conducting training programmes in management skills for civil servants. The intended result of this assistance is a more efficient and better-managed civil service. This relates directly to management development as one of UNDP's areas of focus.

41. Private-sector human resource development. The private sector's training requirements during the transition to a market economy are being identified in a preliminary labour survey undertaken by the State Statistical Centre with UNDP assistance. This study should enable the various vocational and professional training schools, some of which are attached to Government ministries, to gear their curricula to private-sector needs. Assistance in this area increases training opportunities of women for productive employment and contributes to the UNDP theme of global management development.

42. Considerable potential exists for rural communities to draw upon their skills and other locally available resources for income-generating activities that increase employment and standards of living. UNDP cooperation is proposed for projects focusing on non-formal training for villagers to help them plan and carry out such activities. This cooperation will address UNDP's poverty eradication theme as well as offering possibilities for technical cooperation among developing countries and enhancing women's participation in development.

43. Improvement in the quality of education. AsDB, the World Bank and other donors, including NGOs, are providing financial assistance geared to improving the effectiveness of the educational system. Concerns have arisen over the Government's administrative capacity to absorb this assistance effectively. Accordingly, UNDP support to the Ministry of Education might be required to improve its sector planning capability and coordination of external assistance. A project is also being developed to demonstrate non-formal methods of education and the provision of education in areas where ethnic minorities predominate, which will address poverty eradication as well as offering a potential for the increased participation of women in development.

44. Increased coverage and effectiveness of health services. Effective and sustainable health care systems that stress preventive rather than curative techniques are vitally needed. World Health Organization (WHO) support to the health sector is concentrating on communicable disease control and related health care delivery systems. The United Nations Children's Fund (UNICEF), the United Nations Development Fund for Women (UNIFEM), the United Nations Population Fund and WHO are supporting projects in water supply and sanitation, increased women's participation in health programmes, demonstration of community-based health care methods and improved health planning and coordination within the sectoral ministries. The Government believes that there is limited scope for UNDP-funded activities because of the support provided by other donors. Accordingly, UNDP cooperation is expected to be limited to a community-based public information project on AIDS and continued assistance to a pilot programme linking district health care to community health care at the village level in northern provinces.

45. Improved social security schemes. The Government is concerned that economic reforms may adversely affect certain social groups, mostly in urban areas. Reforms with the most direct effects are the deregulation of prices, reductions in government employment, and layoffs in some privatized State enterprises. These are being mitigated to some extent by severance payments

and increased job opportunities in the private sector. The creation of a comprehensive safety net to support individuals seriously affected by the reforms will await a more detailed assessment of the social implications of adjustment. Meanwhile, UNDP assistance is requested to assess the feasibility of introducing new forms of social security such as a pension fund for employees of State enterprises being privatized, old-age pension and accident insurance schemes for employees of State enterprises, a health insurance scheme for urban workers, and improved labour administration procedures in line with international requirements. With the reforms expected to lead to increased urbanization, UNDP and UNCDF are financing a pilot project in the Vientiane area to establish an appropriate model for urban development and for the provision of shelter, focusing on disadvantaged groups. Each of these activities support the UNDP global theme of poverty eradication.

C. Assistance outside main country programme areas

46. An overall reserve of just over 10 per cent of fifth country programme resources is set aside. Nearly half of this reserve is to be used to finance programme and logistical support projects, and the remainder is an unprogrammed reserve to meet technical cooperation needs that may arise as a result of annual and mid-term programme reviews. The programme support project will cover specific consultancies identified during programme implementation and not carried by any particular project or programme. It will provide for more active Lao participation in the commissions and working groups of international and regional organizations, and will finance Transfer of Knowledge through Expatriate Nationals (TOKTEN), technical cooperation among developing countries (TCDC) TCDC activities and the services of UNV specialists and field workers from the Partners in Development programme not funded from specific projects. The logistical support project will fund administrative and logistical support, particularly for the Government's aid-coordination activities.

47. Virtually all of the ongoing and committed projects conform to the areas of concentration in the fifth country programme.

48. The Government sees the country programming process as an opportunity for mobilizing resources for technical cooperation from other sources under the authority of UNDP, such as UNIFEM, the United Nations Capital Development Fund (UNCDF), the Special Measures Fund for the Least Developed Countries (SMF/LDC) and the Management Development Programme (MDP), and other special funds under the Special Programme Resources (SPR). Joint programming opportunities will be sought with UNICEF, whose programming cycle is similar to that of UNDP, and with UNFPA, which is preparing its first country programme. Close cooperation will be maintained with the United Nations International Drug Control Programme (UNDCP), particularly in the area of integrated rural development, where UNDCP has acquired experience in implementing two large-scale projects during the fourth country programme. Coordination between UNDP projects and those financed by the Interim Mekong Committee in the country will be strengthened. Other technical cooperation funds will be sought from the

Global Environment Facility, the Partners in Development programme, and the regional programme.

D. Implementation and management arrangements

49. The Government welcomes the policy of UNDP to encourage national execution of UNDP-assisted activities. However, the present capacity of the Government to undertake this responsibility across the entire programme is limited. Accordingly, the move to national execution will be gradual and will be determined by the Government and UNDP on a case-by-case basis. In moving towards national execution, the Government will continue to rely on United Nations specialized agencies through cooperating arrangements in the implementation of specific programme and project components as and where appropriate. Training in execution will also be required.

50. The Government expects UNDP to continue its collaboration with a growing community of international NGOs during the fifth country programme, particularly in community development projects. The Government also encourages UNDP to contact local NGOs now being established, utilizing their skills in project formulation and implementation. UNV specialists and Partners in Development workers will continue to provide effective technical cooperation in fields such as road maintenance, agricultural extension, health care, small business development, language training and village development.

51. The Government and UNDP will cooperate through the standard cycle of monitoring and evaluation of the programme, including annual and mid-term review and final evaluation. Ongoing monitoring will be included in the regular meetings of the Government and UNDP.

Annex I

FINANCIAL SUMMARY

I. ESTIMATED RESOURCES (IPF + cost-sharing) TAKEN INTO ACCOUNT FOR PROGRAMMING

(Thousands of dollars)

Carry-over from fourth cycle IPF	(5 695)	
Fifth cycle IPF	42 156	
Subtotal IPF		36 461
Project cost-sharing (Government)	3 449	
Project cost-sharing (Third-party)	1 409	
Programme cost-sharing	-	
Subtotal cost-sharing		4 858
TOTAL		41 319

II. ALLOCATION OF RESOURCES (IPF + cost-sharing) BY AREA OF CONCENTRATION

Area of concentration	IPF	Cost-sharing	Total	Percentage of total resources
NEMS support	11 002	-	11 002	27
Infrastructure	11 324	4 734	16 058	39
Human development	9 595	124	9 719	24
Fourth country programme	459	-	459	1
Programme support	1 826	-	1 826	4
Subtotal	34 206	4 858	39 064	95
Unprogrammed reserve	2 255	-	2 255	5
TOTAL	36 461	4 858	41 319	100

III. COMPLEMENTARY ASSISTANCE FROM OTHER SOURCES USED IN AREAS OF CONCENTRATION

(Thousands of dollars)

A. UNDP-administered funds		
SPR	1 243	
UNCDF	12 174	
UNIFEM	-	
UNRFNRE	-	
UNFSTD	-	
Subtotal		13 417
B. Other United Nations resources		
JCGP participating agencies		
UNFPA	2 000	
UNICEF	-	
WFP	-	
IFAD	-	
Other United Nations agencies (non-UNDP-financed)		
UNDCP	7 615	
Global Environment Facility	-	
Subtotal		9 615
Total non-core and other United Nations resources		23 032
C. Non-United Nations resources		-
TOTAL		23 032

Annex II

PROGRAMME MATRIX

Area of concentration	Area of focus a/					
	Poverty eradication and grass-roots participation	Environment and natural resource management	Management development	TCDC	Transfer and adaptation of technology	WID
I. SUPPORT TO THE NEW ECONOMIC MECHANISM						
Resource mobilization	*	*	*			
Private sector	*		*		*	*
Agriculture markets	*	*	*	*	*	*
II. IMPROVEMENT AND EXPANSION OF PHYSICAL INFRASTRUCTURE						
Telecommunications	*		*	*	*	
Civil aviation			*		*	
Mineral exploration		*	*	*	*	
Hydro-power		*	*			
Road/river transport	*	*	*	*		*
III. HUMAN RESOURCE DEVELOPMENT						
Public administration			*		*	*
Private sector human resource development	*		*		*	*
Education	*		*	*		*
Health services	*		*		*	*
Social security	*		*			*

a/ Asterisks indicate major linkage only.

UNITED
NATIONS

DP

Governing Council
of the
United Nations
Development Programme

Distr.
GENERAL

DP/CP/LAO/NOTE/5
13 February 1992

ORIGINAL: ENGLISH

Thirty-ninth session
4-29 May 1992, Geneva
Item 5 of the provisional agenda

PROGRAMME PLANNING: COUNTRY AND INTERCOUNTRY PROGRAMMES AND PROJECTS

FIFTH COUNTRY PROGRAMME FOR LAO PEOPLE'S DEMOCRATIC REPUBLIC

Note by the Administrator

I. PREPARATORY PROCESS

1. Several activities contributed to the preparation of the fifth country programme. A large number of sectoral or investment planning missions took place during 1989-1991, mainly under the auspices of UNDP, the Asian Development Bank (AsDB) and the World Bank. Most of these missions related to pending loan agreements or the preparation of sectoral master plans. They identified both investment and technical cooperation proposals for implementation. The public investment programme identified investments and related technical cooperation for implementation during the 1991-1995 period. The policy framework paper, approved by the International Monetary Fund (IMF) and the World Bank for their structural adjustment facilities, provided guidance on technical cooperation needs. The report prepared by the Government for the round-table meeting in March 1992 identified investment and technical cooperation proposals for consideration by donors. The mid-term review of the fourth country programme in December 1989 provided guidance on the types of UNDP cooperation most likely to succeed.

2. In August 1991, the advisory note proposing priorities for the fifth country programme was submitted to the Government, following consideration of all source materials and UNDP areas of focus, consultations with visiting missions from the World Bank, AsDB and other donors, and frequent dialogue between government officials and UNDP staff in Vientiane. The advisory note

was discussed at a meeting with representatives from the technical ministries, UNDP, and the Lao Women's Union. The fifth country programme was prepared after a review of the advisory note, in consultations established by the Government between UNDP staff and a working group consisting of Ministry of External Economic Relations, Ministry of Economy, Planning and Finance, and Ministry of Foreign Affairs (MFA) representatives.

II. ANALYTICAL COMMENTARY ON THE COUNTRY PROGRAMME

3. With a gross domestic product (GDP) of $180 (1990 estimate) per capita for a population of 4.2 million, Laos is one of the least developed countries (LDCs) of the world. Within the framework of its New Economic Mechanism, adopted in 1986 and gaining momentum since 1988, the country aims at disengaging the State from most production activities, at the same time fostering the State's new role as a provider of an appropriate legal and regulatory framework and macroeconomic environment for private sector production, and improved physical and social infrastructure. These reforms have included the removal of restrictions on private sector activities, removal of subsidies and price controls, adoption of a unified and market-related exchange rate, liberalization of domestic and external trade and foreign investment regulations, tax and financial sector reform, granting of autonomy to State enterprises, the promulgation of laws governing property rights, contracts and banking.

4. The economic and social reform process is likely to remain the dominant and possibly long-term theme in Laos' development objectives. Since 85 per cent of the population are engaged in agricultural, livestock and forestry activities, these sectors will constitute the mainstay of the country's economy for many years to come. However, a lack of physical infrastructure such as roads, bridges, and telecommunications and shortages of skills at all levels, including language skills, have constrained development in this sector as well as development of the economy as a whole.

5. Consequently, areas of concentration for UNDP support relate to the following: economic reform (resource mobilization and public investment programming, enhancement of private sector development and promotion of market production in rural areas); development of physical infrastructure (telecommunication and civil aviation master plans, mineral and hydro-power development, road and river transport development); and human resource development (public and private sector staff basic skill and management capability development, improvement in the quality of education, increased coverage and effectiveness of health services, improved social security schemes).

6. Although UNDP country programme resources for Laos are limited ($42.2 million) as compared to inputs from multilateral financial institutions such as the IMF, the World Bank and AsDB and some major bilateral donors, UNDP remains the only multilateral donor able to support Laos' key objective of accelerating economic reforms with grant-funded technical cooperation on a large scale and over a sustained period. UNDP's flexible response to evolving

needs and, in particular, its involvement in master plans for several key sectors have made it a trusted partner of the Government for policy dialogue and action on various important issues. This is UNDP's principal comparative advantage in Laos.

7. In line with UNDP's special mandate for national capacity-building, its cooperation will concentrate on the strengthening of government capacities for overall management of sectoral programmes rather than on technical cooperation for specific components of these programmes. This will imply the use of a flexible approach to the provision of technical cooperation, also tapping the additional funding possibilities of UNDP-administered funds such as the United Nations Capital Development Fund (UNCDF) and the United Nations Development Fund for Women (UNIFEM), as well as those of the United Nations Population Fund (UNFPA) and, through the UNDP-organized round-table meeting process, the utilization of UNDP's catalytic role of mobilizing complementary funding from other multilateral and bilateral donors.

8. UNDP's areas of focus for capacity-building (the six areas of focus of Governing Council decision 90/34) as well as other major UNDP policy initiatives such as that for the human immune deficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) are reflected in the country programme within the areas of concentration.

9. The main achievement indicators for the areas of concentration supported by UNDP will be measurable growth of commercial agricultural outputs and diversified exports; increases in tax revenue and public/private savings; the privatization of a significant number of State enterprises; growth of private, foreign and joint-venture businesses; expansion of transport and communication facilities; proven results of mineral exploration and hydro-power development; higher rates of literacy and school involvement at all levels as well as advancements in the skill level and in the efficiency of a streamlined civil service.

III. MANAGEMENT OF PROGRAMME IMPLEMENTATION

10. While the country programme consists of interlinked and mutually reinforcing support to priority objectives of the Government, insufficient data on capital and recurrent resources needs, in a period of rapid economic transition, has not made it possible as yet to pursue a full programme approach.

11. Since the Government's capacity to manage the development process entirely under its own responsibility remains limited, national execution of UNDP projects can be introduced only gradually. In moving towards national execution, the Government intends to continue to rely on United Nations specialized agencies through cooperating agreements in the implementation of specific project components of a highly technical nature. The programme reserve set aside could provide the funding for additional training and logistical support required to accelerate this process.

12. UNDP intends to continue its successful collaboration with the growing community of international non-governmental organizations (NGOs), particularly in rural community development projects, and will seek contact with the national NGOs as these are established. UNV specialists and Partners in Development workers will be utilized in increasing numbers in such fields as road maintenance, agricultural extension, health care, language training and community development.

13. Drawing on the experience gained from the implementation of previous country programmes, progress will be closely monitored utilizing UNDP standard tools of tripartite meetings, annual and mid-term country programme reviews, as well as mid-term and/or final evaluations. Achievement indicators, as established in the programme document, will facilitate an objective assessment of the programme's success during the course of its implementation.

IV. RECOMMENDATION

14. The proposed fifth country programme for Laos supports key national objectives while, at the same time, directly and indirectly addressing many of the UNDP areas of focus. It gives much greater emphasis than in the previous cycle to policy analysis and high-level advice. The programme is well focused, it emphasizes UNDP's comparative advantage, and ensures the best use of UNDP resources in support of national goals and objectives.

15. The Administrator recommends that the Governing Council approve the fifth country programme for Laos.